

ASX RELEASE – FLAMINGO AI LIMITED (ABN 99 000 031 292)

Results for Announcement to the Market

In accordance with the Listing Rules, Flamingo AI Limited encloses for immediate release the following information:

1. Appendix 4E
2. Audited Financial Statements for the year to 30 June 2018

Appendix 4E

Preliminary final report for the year ended 30 June 2018 as required by ASX Listing Rule 4.3A

Results for Announcement to the Market (all comparisons to the year ended 30 June 2017)

	30 June 2018	Up/Down	Movement %
Revenue from continuing operations	526,758	Up	10%
Profit/(Loss) from ordinary activities after tax	(8,212,374)	Up	32%
Net Profit/ (Loss) for the period	(8,212,374)	Up	32%
Net tangible asset per share	0.010	Up	145%

Dividend Information

	Amount per share	Franked amount	Tax rate for franking credit%
Dividend per share for period to 30 June 2018	Nil	Nil	Nil

Net Tangible Asset/(Liability) Information

	30 June 2018	30 June 2017
Net Tangible Asset/(Liability) Per Security	\$0.010	\$0.004

Additional Appendix 4E disclosure requirements can be found in the Directors' Statement and the consolidated financial statements for the financial year ended 30 June 2018.

This report is based on Consolidated Financial Statements audited by William Buck (NSW) Pty Limited.



ABN 99 000 031 292

FINANCIAL REPORT
30 JUNE 2018

flamingo **AI** LIMITED
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DIRECTORS' REPORT

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CORPORATE DIRECTORY

Directors

Dr Catriona Wallace – CEO and Managing Director

Mr Mark Kehoe – Executive Director

Mr Peter Lloyd – Non-Executive Director

Company Secretary

Mr Zane Lewis

Registered Office

C/- Bellanhouse Legal

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58 Mounts Bay Road

Perth WA 6000

Ph: 1300 556 368

Auditor

William Buck (NSW) Pty Limited

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Sydney NSW 2000

Share Registry

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Securities Exchange Listing

ASX Limited

Level 40, Central Park

152-158 St Georges Terrace

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ASX Code – FGO

Website

flamingo.ai

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DIRECTORS' REPORT

The Directors of Flamingo AI Limited ("the Company") present their report, together with the financial statements of the Company and its controlled entities ("the Group" or "the Consolidated Entity") for the financial year ended 30 June 2018.

Directors

The names and the particulars of the Directors of the Company during or since the end of the financial year are:

Name	Status	Appointment/Resignation date
Dr Catriona Wallace	CEO and Managing Director	Appointed 3 November 2016
Ms Cathie Reid	Non-Executive Chair	Appointed 3 November 2016, resigned 30 June 2018
Mr Bryn Hardcastle	Non-Executive Director	Appointed 5 November 2015, resigned 27 August 2018
Mr Mark Kehoe	Executive Director	Appointed 10 April 2018
Mr Peter Lloyd	Non-Executive Director	Appointed 10 April 2018
Mr John Murray	Non-Executive Director	Appointed effective 1 October 2018

Principal activities

The Group is an innovative enterprise Software as a Service (**SaaS**) company which has developed an Artificial Intelligence (**AI**) platform (**Flamingo Platform**) based on Unsupervised Machine Learning technology. The Group provides AI-based products including Cognitive Virtual Assistants and a Knowledge Engine which are used by enterprises to improve their sales, service and knowledge processes.

The principal continuing activities of the Group during the year was the development and commercialisation of the Flamingo Platform.

Dividends

There were no dividends paid or recommended during the financial year ended 30 June 2018 (2017: Nil).

Review of operations

The Group reported a loss after tax for the year of \$8,308,101 (2017: loss after tax of \$12,010,184). The net assets of the Group have increased to \$12,150,707 at 30 June 2018 (2017: net asset of \$4,278,505).

The Group's cash and cash equivalents increased from a balance of \$3,383,003 at 30 June 2017 to a balance of \$11,403,297 at 30 June 2018 and the Group had a net working capital surplus of \$11,355,106 (2017: net working capital surplus of \$2,794,406).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year, other than disclosed elsewhere in this report.

Highlights during the year

During the year ended 30 June 2018, the Group successfully transformed from a technology and product development focused strategy to a commercialisation strategy. According to McKinsey (2018) the emerging AI and Machine Learning sector it's size and investment is tripling year on year and will have a potential market size of \$3trillion plus. The Group is now well positioned to capitalise on its successful entrance into this growth sector.

Over the 12months to June 2018, the Group:

- Went live with four Fortune 100 or ASX 100 client trials of its Cognitive Virtual Assistant platform
- Secured new sales for paid trial client contracts resulting in ten paid clients in total for the year
- Progressed clients towards monthly recurring revenue (**MRR**) including achieving MRR with Nationwide Insurance
- Established a formal partner relationship with NASDAQ listed EXL Services
- Enhanced its technology and business capabilities in order to achieve additional and important Security Audit clearances
- Enhanced the unsupervised learning capability of the Machine Learning engine

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Highlights during the year (continued)

- Raised capital in order to fund the commercialisation of the business, and
- Began transitioning the business from a product development to a commercialisation strategy, hiring commercially focused team members and significantly increasing the sales pipeline.

Key Activities

- The Group continued to build a very strong sales pipeline in the US, Australia and Asia, and has grown to have ten paid and formally contracted clients in various deployment and MRR stages. The Group's foundation client, US-based Nationwide Insurance commenced an MRR relationship which was reviewed and extended during the year. Additionally, based on positive results from existing clients, the Group looked to broaden its product offering to address market demand from outside the financial services sector and secured a client relationship in a new industry vertical, telecommunications, thereby demonstrating the applicability of the technology to a larger potential global market.
- The Group successfully achieved Payment Card Industry Data Security Standard (PCI) and SOC2 Type 1 Certification (Service Organisation Control). Being one of the highest technology security standards, globally, it sets standards for non-financial reporting controls relating to security, availability, processing integrity, confidentiality and privacy of a system. This progress is a significant achievement for the Group which aims to complete its full SOC2 Certification in 2018. Achieving this Certification should reduce the time to contract and integrate the technology with future clients and should provide a significant competitive advantage for the Group.
- In September 2017, the Company raised cash of \$5.1m (before costs) via a placement of 128,070,638 ordinary shares at an issue price of 4 cents per share ("Placement"). Also, in December, the Company raised cash of \$10.0m (before costs) via a placement of 161,290,323 ordinary shares at an issue price of 6.2 cents per share ("Placement").
- The capital raised in the half year to December 2017 was used to accelerate the commercialisation of the business with a strong focus on developing the core building blocks and capabilities for marketing and sales functions for the Group in the US, Australian and Asian markets.
- New product research was undertaken relation to the LIBBY (short for self-organising library) product also known as the Knowledge Engine. The LIBBY product is the application of the core Machine Learning engine as a Knowledge Engine, to be used by enterprises who are looking to analyse large quantities of unstructured, conversational or non-form like data. LIBBY will address the significant problem that enterprises have with regard to their inability to manage data and knowledge held by human Subject Matter Experts and disparate systems. It is expected that LIBBY will formally launch in FY19.
- Significant work has been completed on a re-brand and relaunch of the Flamingo AI brand, products and capabilities which is expected to be launched in Q2 FY18/19.
- During the year, two new directors were appointed to the Group Board: Executive Director Mark Kehoe who also serves as Chief Commercial Officer, and Non-Executive-Director Peter Lloyd. Cathie Reid concluded her role as Non-Executive Chairperson on 30 June 2018, after serving as Chair for four years. In addition, Bryn Hardcastle concluded his role as Non-Executive Director on 27 August 2018, and John Murray has been appointed Non-Executive Director, effective 1 October 2018.
- The Group records 10% growth in revenue from continuing operations compared to the previous corresponding year. The cash receipts from the customers also increased to \$789k compared to \$342k in FY17.

USA

The Group entered into the post-testing go-live phase with Nationwide Insurance (**Nationwide**) who are using the Group's Cognitive Virtual Assistant platform, ROSIE (recently renamed by Nationwide to 'Nancy'), to guide customers through their application and account set up for the Guaranteed Retirement Income (GRIN) product. This contract with Nationwide for the GRIN Virtual Assistant constitutes a MRR stream. Nationwide conducted a 6-month review of the platform and extended the contract. The Group commenced discussions with a number of other lines of business within Nationwide who are looking to AI-based technologies, such as Flamingo AI Limited provides, to support their business goals.

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Highlights during the year (continued)

USA (continued)

Another US-based Fortune 50 insurer entered its go-live phase where their customers interacted with the Group's Cognitive Virtual Assistant. The purpose of this initial trial, led by the insurer's innovation team, was to assess the feasibility of a Cognitive solution such as the Group offered. The initial trial was successfully completed by the end of FYQ3 and further contract discussions are now underway with other parts of the insurer interested in Cognitive Virtual Assistant platforms.

A third US-based Fortune 100 insurer, Liberty Mutual, entered User Acceptance Testing (**UAT**) and go-live, following extensive design, security and integration work conducted by the Group in order to implement the Group's Cognitive Virtual Assistant platform, for Liberty Mutual's Auto Insurance Quote to Bind process. This trial was extended so that Liberty Mutual could explore the use of the Group's platform in multiple modes – Human Assisted Virtual Assistant (**HAVA**), auto mode with Human Escalation and Fully Automated mode (no human involvement). This trial is positioned by Liberty Mutual as a 'proof of technology' in order to determine where this cognitive platform technology might best be deployed in the business.

Results of US-based clients using the Group technology were very positive during the year, hence capital raised will be focused on building out the sales and delivery capability in the US-market in order to capitalise on the strong sector growth and investment in AI in this region.

During the year a strong relationship was developed and strategic alliance partnership signed with NASDAQ listed EXL Service (EXL), a large insurance data analytics and managed services provider. After considerable due diligence, the Group was selected by EXL as their global conversational AI partner. The Group has been engaged in numerous streams of work with EXL including:

- conducting joint pitches to EXL's existing client base where the Group provides the conversational AI layer to EXL's robotics process automation and data analytics platform
- Building integrated demonstrations of the Group's and EXL's platform and products
- Developing a joint go-to-market strategy, and
- Training EXL team members on the Group's products, integration and professional services.

The Group also established a marketing and sales team in FYQ4 employing experienced team members in both the US and Australia. Due to the high regard of the Group's technology and brand, the Group has been successful in attracting senior and experienced sales staff from other key players in the Conversational AI and Machine Learning sector.

Asia-Pacific

The Group's customer traction in the Asia-Pacific region increased during the year, with the Group securing four new significant brands as clients, as outlined below.

The Group signed both a SaaS agreement with Chubb Asia Pacific Pty Limited and an initial Statement of Work (**SOW**) for a paid trial with Chubb Insurance Australia Limited (**Chubb**). Chubb is progressing very well through the various implementation phases.

The Group's relationship with MetLife Asia continued to remain strong and signed a Services Agreement with the MetLife Innovation Centre Pte Limited (**MetLife**) in Singapore. This agreement was to provide the framework to explore use cases and business development opportunities with MetLife for MetLife to use the Group's AI in their online direct business, for which MetLife paid a service fee to the Group. The outcome of the services agreement was to agree a definitive scope for a paid trial contract with MetLife within the Asia region. Both MetLife Asia and the Group are progressing well in finalising the scope for the paid trial of the Flamingo AI platform.

During the year, the Group signed a binding commercial term sheet with CUA Health Limited (CUA), a subsidiary of Credit Union Australia, for a paid trial of the Group's virtual sales and service assistant. The trial is expected to run for three months in live evaluation mode where CUA's customers and members will interact with ROSIE, the Group's Virtual Assistant.

The Group also continued its go-live phase with AMP where AMP's customers interacted with the Group's Virtual Assistant guiding customers through their superannuation and life insurance application.

The paid trial and implementation of the Flamingo platform, a Virtual Sales Assistant, for online personal loan provider and FinTech company, WISR (previously DirectMoney), progressed well with the Group completing security review, integration and UAT phases. In the live evaluation, the Group's Cognitive Virtual Assistant platform, ROSIE, will be used to guide customers through secured and unsecured personal loan applications with WISR.

Two new clients secured in this period, one in the financial services sector and one in the telecommunications sector are also progressing well through stages of paid trial implementations.

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Highlights during the year (continued)

Product and intellectual property

The Group's Machine Learning capability has been developed using the Group's own intellectual property (IP) and is based on an 'unsupervised' machine learning program, that is a key differentiator in the AI market. During the year the Group continued to develop its proprietary IP, having lodged patent applications in 14 jurisdictions.

As announced on 7 September 2017, the Group released a new product, a Cognitive Virtual Enquiry Assistant, which the Group named MAGGIE. This product supports the Group's strategy to develop a product that is a 'light touch' step into AI for clients. The MAGGIE product is the Group's second machine learning product. ROSIE, the Group's Cognitive Virtual Sales and Service Assistant was the Group's first product to market.

During the year the Group also invested significantly into the research of a new product, LIBBY, which is a knowledge engine capability, based on unsupervised machine learning. LIBBY, short for 'self-organising library', will assist enterprises analyse and manage large quantities of unstructured, conversational or non-form like data. It is expected that LIBBY will be formally launched in FY19.

Significant events and progress after the reporting period

The consolidated entity lodged and received a \$1,113,363 R&D tax refund in August 2018 from the Australian Taxation Office (ATO).

As announced on 27 August 2018, the Group appointed Mr John Murray as Non-Executive Chair of the Board, effective as at 1 October 2018. Mr Murray's experience and skills are well suited to leading the Group through its future growth phases.

Mr Bryn Hardcastle has advised the Board of his resignation due to work commitments, effective 27 August 2018.

There were no other significant events after the reporting date.

Information on Directors

<i>Dr Catriona Wallace</i>	Chief Executive Office and Managing Director (appointed 3 November 2016)
Qualifications	PhD in Organisational Behaviour: Technology as a Substitute for Human Leaders
Experience	Dr Catriona Wallace is the founder and CEO of the Group. Dr Wallace is a multi-award winning, internationally recognised business leader, well published author, with a PhD and is statistically trained. She is the founder and now major shareholder of two successful businesses (excluding Flamingo), including the multi-award-winning customer experience design firm, Fifth Quadrant.
Interest in shares and options at the date of this report	155,229,994 ordinary shares (including 148,322,811 escrowed for a period of 24 months from completion of the Flamingo transaction) 38,604,796 Class B performance shares 38,604,796 Class C performance shares
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	None

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Information on Directors (continued)

<i>Ms Cathie Reid</i>	Non-Executive Chair (appointed 3 November 2016, resigned 30 June 2018)
Qualifications	Bachelor of Pharmacy
Experience	<p>Ms Cathie Reid is the co-founder of Icon Group, a provider of integrated cancer care services with operations in Australia, Singapore, New Zealand and China. She is also the Managing Partner of Australia's Epic Pharmacy Group.</p> <p>Ms Reid was inducted into the Australian Businesswoman's Hall of Fame in 2015, named one of the Top 100 Women of Influence by Australian Financial Review in 2013, won a National Telstra Business Women's Award in 2011, and was recognised by Monash University with a Distinguished Alumni Award from Professional Achievement in 2012.</p>
Interest in shares and options at the date of this report	<p>86,048,320 ordinary shares (including 34,511,608 escrowed for a period of 24 months from completion of the Flamingo transaction)</p> <p>20,949,580 Class B performance shares</p> <p>20,949,580 Class C performance shares</p> <p>1,000,000 Class E performance rights</p> <p>1,000,000 Class F performance rights</p> <p>3,000,000 Class G performance rights</p>
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	None
<i>Mr Bryn Hardcastle</i>	Non-Executive Director (appointed 5 November 2015, resigned 27 August 2018)
Qualifications	Bachelor of Laws, Bachelor of Arts
Experience	<p>Mr Hardcastle is an experienced corporate lawyer specialising in corporate, commercial and securities law. He is the founder of Bellanhouse Legal which predominantly advises on equity capital markets, re-compliance transactions and takeovers across a variety of industries.</p> <p>Mr Hardcastle has extensive international legal experience and has advised on numerous cross border transactions working in the United Kingdom, the Middle East and North America. He also has experience acting as a Non-Executive Director of ASX listed companies.</p>
Interest in shares and options at the date of this report	<p>1,500,000 ordinary shares</p> <p>1,000,000 Class E performance rights</p> <p>1,000,000 Class F performance rights</p> <p>3,000,000 Class G performance rights</p>
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	<p>Attila Resources Limited (AYA)</p> <p>New Century Resources Limited (NCZ)</p>

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Information on Directors (continued)

Mr Mark Kehoe	Non-Executive Director (appointed 10 April 2018)
Qualifications	B Bus MAICD
Experience	Mr Kehoe is an experienced Executive Director, early stage investor and advisor with over 15 years specialising in transformative digital/online businesses. Successful track record of increasing business value through building and leading success in digital disruption, with comprehensive general management, sales, marketing and operations credentials.
Interest in shares and options at the date of this report	3,209,318 ordinary shares 4,000,000 Class E performance rights 4,000,000 Class G performance rights
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	None

Mr Peter Lloyd	Non-Executive Director (appointed 10 April 2018)
Qualifications	MAICD
Experience	Mr Lloyd has over 40 years' experience on computing technology, and in the sales and marketing of computer software products and services. For the past 35 years, Peter has been specifically involved in the provision of payments solutions for banks and financial institutions. He is currently the proprietor of The Grayrock Group Pty Limited, a management consultancy company focusing on the payments industry, and a Non-Executive Director of Taggle Pty Limited.
Interest in shares and options at the date of this report	2,062,500 ordinary shares 2,000,000 Class G performance rights
Special Responsibilities	Nil
Directorships held in other listed entities (last 3 years)	Integrated Research Limited (IRI)

Information on Key Management

Mr Joseph Waller	Chief Technology Officer
Qualifications	Bachelor of Science (Honours) Scientific Computing
Experience	Mr Joseph Waller is a former Technology Strategist and Chief-of-Staff of Betfair, the world's largest sports trading platform. Mr Waller played a key role in growing the company from a UK technology start up into the world's largest internet betting exchange. He ran the product and platform teams that built and scaled the exchange to annual revenues of over \$700 million, matching over 30,000 trades a minute (more than all of Europe's stock exchanges combined).
Interest in shares and options at the date of this report	10,000,000 employee options

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Information on Company Secretary

Mr Zane Lewis

Appointed 6 February 2017

Experience

Mr Zane Lewis has over 20 years' experience with small cap multinational companies including corporate advisory roles at several ASX listed companies. Mr Lewis is a member of Chartered Secretaries Australia and is a Non-Executive Director and Company Secretary for a number of ASX Listed companies.

Meetings of Directors

The number of formal meetings of Directors held during the year and the number of meetings attended by each director was as follows:

Director	Appointment/Resignation date	DIRECTORS' MEETINGS	
		Number eligible to attend	Number attended
Catriona Wallace	Appointed 3 November 2016	12	12
Cathie Reid	Appointed 3 November 2016, resigned 30 June 2018	12	12
Bryn Hardcastle	Appointed 5 November 2016, resigned 27 August 2018	12	12
Mark Kehoe	Appointed 10 April 2018	2	2
Peter Lloyd	Appointed 10 April 2018	2	2

Options

Unissued shares under option

At the date of this report, the unissued ordinary shares of the Group under option are as follows:

Expiry date	Grant date	Exercise price	Number under option
5 February 2019	21 January 2016	\$0.030	44,400,000
4 November 2019	4 November 2015	\$0.020	14,062,502
3 November 2021	3 November 2016	\$0.029	4,922,948
18 December 2019	19 December 2017	\$0.050	5,000,000
23 December 2019	23 December 2016	\$0.080	500,000
16 December 2021	16 December 2016	\$0.040	4,115,363
22 March 2023	13 December 2017	\$0.040	650,000
30 June 2020	16 February 2017	\$0.080	500,000
30 June 2020	1 January 2018	\$0.070	7,786,325
30 June 2020	9 June 2018	\$0.08	400,000
Total			82,337,138

No option holder has any right under the options to participate in any other share issue of the Company or of any associated entity.

Performance rights

At the date of this report, the Company had the following performance rights on issue:

Grant date	Performance right class	Expiration date	Number of rights issued
30 November 2016	Class E	30 May 2020	3,000,000
30 November 2016	Class F	30 May 2020	3,000,000
19 October 2017	Class G	19 October 2020	9,000,000
10 April 2018	Class E	10 October 2021	4,000,000
10 April 2018	Class G	10 April 2021	6,000,000
Total			25,000,000

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Performance rights (continued)

Class	Performance milestone
Class E	Flamingo achieves \$13,000,000 in Revenue in any 12-months period within 36 months of 3 November 2016
Class F	Flamingo achieves \$28,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016
Class G	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 10 cents, within 36 months from date of issue

On 5 February 2018, the Class A, B and C performance rights were released from escrow and converted into fully paid ordinary shares on 1:1 basis. The Class D performance rights have converted to ordinary shares on a 1:1 basis during the year as they satisfied the respective milestone.

At the grant date, the Class E and F performance rights, with non-market vesting conditions, have been valued by reference to the prevailing share price at the grant date. No expense has been recognised in the current year in respect of these performance rights due to the uncertainty of meeting the performance milestones, which are based on future events.

The fair value of the Class G performance rights, with market linked vesting conditions, have been valued at the grant date by reference to the prevailing share price at that date, and adjusted for managements best estimate of achieving the respective performance milestones. The fair value of the Class G performance rights is being recognised equally over a 36-month vesting period.

Performance shares

At the date of this report, the Company had the following performance shares on issue:

Expiry date	Grant date	Performance share class	Number of shares issued
3 May 2020	3 November 2016	Class B	93,292,407
3 May 2020	3 November 2016	Class C	93,292,407
Total			186,584,814

Class	Performance milestones
Class B	Flamingo achieves \$13,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016
Class C	Flamingo achieves \$28,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016

During the year, the Class A performance shares have converted to ordinary shares on a 1:1 basis, as they met the respective performance milestone.

The Class B and C performance shares have been valued at the grant date by reference to the prevailing share price at that date. No expense has been recognised in the current year due to the uncertainty of meeting the performance milestones which are based on future events.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

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Indemnifying officers

The Company indemnifies each of its directors, officers and company secretary. The Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in defending legal and administrative proceedings and applications for such proceedings.

The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavours to insure a Director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

Insurance premiums

During the year, the Company paid insurance premiums to insure directors and officers against certain liabilities arising out of their conduct while acting as an officer of the Group. Under the terms and conditions of the insurance contract, the nature of the liabilities insured against and the premium paid cannot be disclosed.

Environmental regulations

In the normal course of business, there are no environmental regulations or requirements that the Group is subject to.

Likely developments and expected results of operations

The Group's principal continuing activity is the development and commercialisation of the Flamingo Platform. The Group's future developments, prospects and business strategies are to continue to develop and commercialise the Flamingo Platform which will improve the Group's sales revenue.

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, William Buck (NSW) Pty Limited, as part of the terms of its audit engagement agreement against claims by third parties arising from their report on the financial report.

Non-audit services

During the year, William Buck (NSW) Pty Limited, provided the Company with other non-audit services totalling to \$42,614. Details of their remuneration can be found within the financial statements at note 6.

Where non-audit services are provided by William Buck (NSW) Pty Limited, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Auditor's independence declaration

The auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 18 of the financial report.

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Remuneration Report (Audited)

This remuneration report for the year ended 30 June 2018 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth), as amended (**Act**) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Executive remuneration arrangements
4. Director fee arrangements
5. Performance conditions linked to remuneration
6. Details of remuneration
7. Additional disclosures relating to equity instruments
8. Loans to key management personnel (KMP) and their related parties
9. Other transactions and balances with KMP and their related parties
10. Voting of shareholders at least years AGM

1. Introduction

Key Management Personnel (**KMP**) have authority and responsibility for planning, directing and controlling the major activities of the Group. KMP comprise the directors of the Company and identified key management personnel.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board may seek independent advice on the appropriateness of compensation packages, given trends in comparable companies both locally and internationally and the objectives of the Group's compensation strategy.

2. Remuneration governance

The Directors believe the Group is not currently of a size nor are its affairs of such complexity as to warrant the establishment of a separate remuneration committee. Accordingly, all matters are considered by the full Board of Directors, in accordance with a remuneration committee charter.

During the financial year, the Group did not engage any remuneration consultants.

3. Executive remuneration arrangements

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages may include a mix of fixed compensation, equity-based compensation, as well as employer contributions to superannuation funds. Shares and options may only be issued subject to approval by shareholders in a general meeting.

At the date of this report the Group has three executives appointed, being the appointment of Dr Catriona Wallace as the Chief Executive Officer and Managing Director, Mr Mark Kehoe as Chief Commercial Officer and Mr Joseph Waller as Chief Technology Officer. The terms of their Executive Employment Agreements are summarised in the following table.

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3. Executive remuneration arrangements (continued)

Executive Name	Remuneration
Dr Catriona Wallace (Chief Executive Officer and Executive Director)	<ul style="list-style-type: none">• Base executive salary of \$275,000 per annum, inclusive of superannuation;• A living away from home component of \$24,000 per annum;• Directors fees of \$55,000 per annum;• Is entitled to other incentives such as bonus schemes and employee share option plans and may be reimbursed for actual and reasonable business expense;• In the event of change in control Dr Wallace is entitled to receive a bonus payment of three months base salary; and• Dr Wallace's Agreement is for indefinite term and will continue until terminated by either the Company giving the three months written notice or by Dr Wallace giving the Company three months written notice (or shorter period in limited circumstances)
Mr Mark Kehoe (Chief Commercial Officer and Executive Director)	<ul style="list-style-type: none">• Base executive salary of \$275,000 per annum inclusive of directors' fees of \$55,000 per annum, plus superannuation;• Is entitled to other incentives such as bonus schemes and employee share option plans and may be reimbursed for actual and reasonable business expense;• In the event of change in control Mr Kehoe is entitled to receive a bonus payment of three months base salary; and• Mr Kehoe's Agreement is for indefinite term and will continue until terminated by either the Company giving the three months written notice or by Mr Kehoe giving the Company three months written notice (or shorter period in limited circumstances).
Mr Joseph Waller (Chief Technology Officer)	<ul style="list-style-type: none">• Base executive salary of \$250,000 per annum, plus superannuation;• Is entitled to other incentives such as bonus schemes and employee share option plans and may be reimbursed for actual and reasonable business expense; and• Mr Waller's Agreement does not have fixed term and has standard termination provisions.

In considering the relationship between the Group's remuneration policy and the consequences to Company's shareholder wealth, changes in share price are analysed .

4. Director fee arrangements

The Board policy is to remunerate Directors at a level to comparable companies for time, commitment, and responsibilities. Directors may receive performance related compensation. Directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to Directors.

The maximum aggregate amount of fees that can be paid to Directors is presently limited to an aggregate of \$500,000 per annum and any change is subject to approval by shareholders at the General Meeting. Fees for Directors are not linked to the performance of the Company, however, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

Total fees for the Directors for the financial year were \$145,000 (2017: \$132,300) and cover main Board activities only. Directors may receive additional remuneration for other services provided to the Group.

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DIRECTORS' REPORT

5. Performance conditions linked to remuneration

The Group has established and maintains Flamingo AI Limited Employee Option Plan (**Plan**) to provide ongoing incentives to Eligible Participants of the Company. Eligible Participants include:

- a Director (whether executive or non-executive) of any Group company;
- a full or part time employee of any Group company;
- a casual employee or contractor of a Group company; or
- a prospective participant, being a person to whom the Offer was made but who can only accept the Offer if arrangement has been entered into that will result in the person becoming an Eligible Participant.

The Board adopted the Plan to allow Eligible Participants to be granted Options to acquire shares in the Company.

The purpose of the Plan is to assist in the reward and motivation of Eligible Participants and link the reward of Eligible Participants to performance and the creation of shareholder value. It is designed to align the interest of Eligible Participants more closely to the interests of shareholders by providing an opportunity for Eligible Participants to receive shares. It provides the Eligible Participants with the opportunity to share in any future growth in value of the Company and provides greater incentives for Eligible Participants to focus on the Company's longer-term goals. During the year ended 30 June 2018 9,290,870 options have been issued under this Plan.

6. Details of remuneration

The Key Management Personnel of Flamingo AI Limited includes the current and former Directors of the Company and Key Management Personnel of the Consolidated Entity during the year ended 30 June 2018.

30-Jun-18	Short term salary, fees & commissions \$	Post- employment superannuation \$	Bonus \$	Share-based payments \$	Total \$	Performance based % of remuneration \$
Directors:						
Catriona Wallace ¹	355,701	23,611	37,500	-	416,812	9.0%
Cathie Reid ²	36,000	-	-	39,000	75,000	52.0%
Bryn Hardcastle ³	40,750	-	-	39,000	79,750	48.9%
Mark Kehoe ⁴	65,704	3,417	-	-	69,121	-
Peter Lloyd ⁵	13,750	-	-	-	13,750	-
Key management:						
Joseph Waller	232,806	20,883	-	390,708	644,397	60.6%
Total	744,711	47,911	37,500	468,708	1,298,830	

¹ Appointed on 3 November 2016

² Appointed on 3 November 2016, resigned 30 June 2018

³ Appointed on 5 November 2015, resigned 27 August 2018

⁴ Appointed on 10 April 2018

⁵ Appointed on 10 April 2018

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6. Details of remuneration (continued)

30-Jun-17	Short term salary, fees & commissions \$	Post- employment superannuation \$	Bonus \$	Share-based payments \$	Total \$	Performance based % of remuneration \$
Directors:						
Catriona Wallace	310,706	13,077	-	-	323,783	-
Cathie Reid	24,000	-	-	-	24,000	-
Bryn Hardcastle	36,000	-	-	-	36,000	-
Faldi Ismail ¹	36,000	-	-	-	36,000	-
Tom Bahen ²	12,300	-	-	-	12,300	-
Key management:						
Joseph Waller	192,279	18,266	-	-	210,545	-
Total	611,285	31,343	-	-	642,628	-

The relative proportions of remuneration that are linked to performance and those that are fixed for the current year are as follows:

30-Jun-18	Fixed remuneration %	At risk: short term incentive %	At risk: share-based payments (options) %
Directors:			
Catriona Wallace	91.0%	9.0%	-
Cathie Reid	100.0%	-	-
Bryn Hardcastle	100.0%	-	-
Mark Kehoe	100.0%	-	-
Peter Lloyd	100.0%	-	-
Key management:			
Joseph Waller	39.4%	-	60.6%

7. Additional disclosures relating to equity instruments

KMP ordinary shareholdings

The number of ordinary shares in the Company, held by each KMP of the Group during the financial year is as follows:

30-Jun-18	Balance at the start of the year	Issued on conversion of performance rights/shares	Acquired on market purchase	Other changes during the year	Balance at end of the year/ at resignation date
Directors:					
Catriona Wallace	116,625,198	38,604,796	-	-	155,229,994
Cathie Reid	64,098,740	21,949,580	-	-	86,048,320
Bryn Hardcastle	500,000	1,000,000	-	-	1,500,000
Mark Kehoe	-	-	3,209,318	-	3,209,318
Peter Lloyd	-	-	2,062,500	-	2,062,500
Key management:					
Joseph Waller	-	-	-	-	-
Total	181,223,938	-	-	66,826,194	248,050,132

1 Appointed on 28 October 2015, resigned on 27 June 2017

2 Appointed on 5 November 2015, resigned on 3 November 2016

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7. Additional disclosures relating to equity instruments (continued)

KMP performance shares holdings

The number of performance shares in the Company held by each KMP of the Group during the financial year is as follows:

30-Jun-18	Balance at the start of the year	Granted as remuneration during the year	Exercised and converted to ordinary shares during the year	Other changes during the year	Balance at end of the year/ at resignation date
Directors:					
Catriona Wallace	115,814,388	-	(38,604,796)	-	77,209,592
Cathie Reid	62,848,740	-	(20,949,580)	-	41,899,160
Bryn Hardcastle	-	-	-	-	-
Mark Kehoe	-	-	-	-	-
Peter Lloyd	-	-	-	-	-
Key management:					
Joseph Waller	-	-	-	-	-
Total	178,663,128	-	(59,554,376)	-	119,108,752

Options awarded, vested and lapsed during the year

The table below discloses the number of share options granted, vested or lapsed during the year.

Share options do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date.

KMP options holdings

The number of options over ordinary shares of the Company held by each KMP of the Group during the financial year is as follows:

30-Jun-18	At 30-Jun-18						
	Balance at the start of the year	Granted as remuneration during the year	Expired during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable	Vested and un-exercisable
Directors:							
Catriona Wallace	-	-	-	-	-	-	-
Cathie Reid	625,000	-	(625,000)	-	-	-	-
Bryn Hardcastle	-	-	-	-	-	-	-
Mark Kehoe	-	-	-	-	-	-	-
Peter Lloyd	-	-	-	-	-	-	-
Key management:							
Joseph Waller	2,727,312	7,272,688	-	-	10,000,000	8,743,686	1,256,314
Total	3,352,312	7,272,688	(625,000)	-	10,000,000	8,743,686	1,256,314

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7. Additional disclosures relating to equity instruments (continued)

KMP performance rights holdings

The number of performance rights held by each KMP of the Group during the financial years is as follows:

						At 30-Jun-18	
30-Jun-18	Balance at the start of the year	Granted as remuneration during the year	Issued during the year	Exercised/ converted during the year*	Balance at the end of the year	Vested and exercisable	Vested and un-exercisable
Directors:							
Catriona Wallace	-	-	-	-	-	-	-
Cathie Reid	-	-	6,000,000	(1,000,000)	5,000,000	-	5,000,000
Bryn Hardcastle	10,000,000	-	6,000,000	(11,000,000)	5,000,000	-	5,000,000
Mark Kehoe	-	-	8,000,000	-	8,000,000	-	8,000,000
Peter Lloyd	-	-	2,000,000	-	2,000,000	-	2,000,000
Key management:							
Joseph Waller	-	-	-	-	-	-	-
Total	10,000,000	-	22,000,000	(12,000,000)	20,000,000	-	-

*Refer to note 17 for details on the specific performance milestones of each class of the performance shares.

8. Loans to key management personnel and their related parties

There were no loans made to key management personnel during the financial year.

9. Other transactions and balances with KMP and their related parties

Some Directors or former Directors of the Group hold or have held positions in other companies, where it is considered they control or significantly influence the financial or operating policies of those entities. During the year, the following entities provided corporate services and rental to the Group. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Entity	Nature of transactions	Key management personnel	Total transactions		Payable balance	
			2018	2017	2018	2017
			\$	\$	\$	\$
Otsana Capital Pty Ltd	Corporate advisor retainer	Faldi Ismail*	-	50,065	-	3,366
Otsana Capital Pty Ltd	Placement fee	Faldi Ismail*	-	210,000	-	-
Otsana Capital Pty Ltd	Capital raising fee	Faldi Ismail*	-	143,788	-	-
Adamantium Holdings Pty Ltd	Rent and registered office fee	Faldi Ismail*	-	18,000	-	1,500
Bellanhouse Legal	Legal retainer fee	Bryn Hardcastle**	90,000	40,000	-	-
Bellanhouse Legal	Legal fees	Bryn Hardcastle**	19,613	182,182	8,166	-

*Faldi Ismail is a former Director of the Company; resigned 27 June 2017

**Bryn Hardcastle resigned 27 August 2018

The following transactions occurred with Bellanhouse Legal, a company related to director Mr Bryn Hardcastle during the year ended 30 June 2018:

- a total of \$90,000 was paid for legal retainer fees during the period 1 July 2017 to 30 June 2018;
- a total of \$19,613 was paid as legal fees relating to various legal matters including the costs associated with the capital raising.

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DIRECTORS' REPORT

10. Voting of shareholders at last year's annual general meeting

At the 2017 AGM, 90% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

THIS IS THE END OF THE AUDITED REMUNERATION REPORT

Signed in accordance with a resolution of the Board of Directors.



Dr Catriona Wallace
Chief Executive Officer and Managing Director
30 August 2018

Flamingo AI Limited and its controlled entities

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS

I declare that, to the best of my knowledge and belief during the year ended 30 June 2018 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



William Buck
Chartered Accountants
ABN 16 021 300 521



R. Ahrens
Director
30 August 2018

**CHARTERED ACCOUNTANTS
& ADVISORS**

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	30 June 2018 \$	30 June 2017 \$
Revenue	3(a)	526,758	480,755
Other income	3(a)	1,673,809	534,060
Amortisation and depreciation		(705,410)	(519,230)
Corporate expenses		(381,828)	(305,411)
Employee expenses		(6,236,716)	(2,049,512)
Consulting and recruitment expenses		(1,159,000)	(800,312)
Listing expenses on acquisition of Flamingo	2	-	(7,386,292)
Network and platform costs		(523,574)	(239,029)
Occupancy and office expenses		(496,483)	(318,590)
Public company expenses		(356,511)	(273,686)
Sales and marketing		(70,395)	(134,632)
Transaction costs		(1,047)	(569,116)
Travel and entertainment		(479,504)	(397,353)
Interest expense		(4)	(6,863)
Other		(2,469)	(10,314)
Loss before income tax	3(b)	(8,212,374)	(11,995,525)
Income tax expense	4	-	-
Loss for the year		(8,212,374)	(11,995,525)

Other comprehensive income:

Items that may be reclassified subsequently to profit or loss

Exchange differences on translating foreign operations	(95,727)	(14,659)
Total comprehensive loss for the year	(8,308,101)	(12,010,184)

Loss per share for the year attributable to the members of Flamingo AI Limited

Basic loss per share (cents per share)	7	(0.69)	(1.91)
Diluted loss per share (cents per share)	7	(0.69)	(1.91)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	30 June 2018 \$	30 June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents	8(a)	11,403,297	3,383,003
Trade and other receivables	9	1,284,215	301,795
Other current assets		167,249	35,413
TOTAL CURRENT ASSETS		12,854,761	3,720,211
NON-CURRENT ASSETS			
Plant and equipment	10	77,548	67,112
Intangible assets	11	-	84,856
Development assets	12	718,053	1,332,131
TOTAL NON-CURRENT ASSETS		795,601	1,484,099
TOTAL ASSETS		13,650,362	5,204,310
CURRENT LIABILITIES			
Trade and other payables	13	980,494	469,660
Deferred income	14	240,811	292,308
Provisions	15	278,350	163,837
TOTAL CURRENT LIABILITIES		1,499,655	925,805
TOTAL LIABILITIES		1,499,655	925,805
NET ASSETS		12,150,707	4,278,505
SHAREHOLDERS' EQUITY			
Issued capital	16	34,893,595	19,913,416
Reserves	18	1,280,747	176,350
Accumulated losses		(24,023,635)	(15,811,261)
SHAREHOLDERS' EQUITY		12,150,707	4,278,505

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2018

	Issued Capital	Option Reserve	Foreign Currency Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016	3,594,442	75,628	10,301	(3,815,736)	(135,365)
Loss for the year	-	-	-	(11,995,525)	(11,995,525)
Other comprehensive income	-	-	(14,659)	-	(14,659)
Total comprehensive loss for the year	-	-	(14,659)	(11,995,525)	(12,010,184)
Transactions with owners, recognised directly in equity					
Acquisition of Flamingo Customer Experience Inc.	9,377,056	-	-	-	9,377,056
Issue of shares November 2016	3,531,455	-	-	-	3,531,455
Issue of shares April 2017	3,410,463	-	-	-	3,410,463
Options vested	-	105,080	-	-	105,080
Balance at 30 June 2017	19,913,416	180,708	(4,358)	(15,811,261)	4,278,505
Balance at 1 July 2017	19,913,416	180,708	(4,358)	(15,811,261)	4,278,505
Loss for the year	-	-	-	(8,212,374)	(8,212,374)
Other comprehensive income	-	-	(95,727)	-	(95,727)
Total comprehensive loss for the year	-	-	(95,727)	(8,212,374)	(8,308,101)
Transactions with owners, recognised directly in equity					
Issue of shares September 2017, net of equity raising costs	4,815,103	-	-	-	4,815,103
Issue of shares December 2017, net of equity raising costs	9,454,720	-	-	-	9,454,720
Conversion of performance rights	300,971	-	-	-	300,971
Transactions involving options	409,385	1,200,124	-	-	1,609,509
Balance at 30 June 2018	34,893,595	1,380,832	(100,085)	(24,023,635)	12,150,707

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	30 June 2018	30 June 2017
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		789,222	342,179
R&D tax offset received		178,715	723,368
Interest received		76,177	6,642
Payments to suppliers		(1,624,093)	(2,111,929)
Payment to employees		(5,954,965)	(2,188,402)
Net cash used in operating activities	8(b)	(6,534,944)	(3,228,142)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment	10	(66,796)	(61,852)
Investment in development assets	12	(34,972)	(1,357,067)
Cash acquired on reverse takeover transaction	2	-	4,057,396
Deposit returned		30,662	-
Net cash (used in)/provided by investing activities		(71,106)	2,638,477
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received from related parties		-	915,000
Loan repaid to related parties		-	(286,000)
Proceeds from share issue		15,532,211	3,636,079
Payments for capital raising costs		(853,003)	(449,827)
Net cash inflows from financing activities		12,679,208	3,815,252
Net increase in cash and cash equivalents		8,073,158	3,225,587
Cash and cash equivalents at the beginning of the financial year		3,383,003	169,434
Effects of foreign currency translation		(52,864)	(12,018)
Cash and cash equivalents at the end of the financial year	8(a)	11,403,297	3,383,003

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

These consolidated financial statements cover Flamingo AI Limited (the **Company**) and the entities it controlled for all or part of the financial year (also referred to as the **Consolidated Entity** or the **Group**). Flamingo AI Limited is a company limited by shares, incorporated and domiciled in Australia. The Group is a for-profit entity.

The financial statements were issued by the board of directors on 30 August 2018.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated. Where applicable, comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the financial report

a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian interpretations) adopted by the Australian Accounting Standard Board (**AASB**), International Financial Reporting Standards (**IFRSs**) and the Corporations Act 2001.

b) Going concern

For the year ended 30 June 2018 the consolidated entity recorded a loss of \$8,212,374 (30 June 2017: loss \$11,995,525), net cash outflows from operating activities of \$6,534,944 (30 June 2017: outflows \$3,228,142), and net assets of \$12,150,707 as at that date (30 June 2017: net assets \$4,278,505).

During the year ended 30 June 2018, the Group raised \$15.1m (before capital raising costs) in additional capital, resulting in a year-end cash and cash equivalents position of \$11,403,297 (30 June 2017: \$3,383,003).

The ability of the consolidated entity to continue as a going concern is dependent on securing additional funding to continue its current level of operational activities and further development of its technology assets. These conditions indicate a material uncertainty that may cast a significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Management believe there are sufficient funds to meet the consolidated entity's working capital requirements as at the date of this report. Subsequent to the period end the consolidated entity expects to receive additional funds from capital raising.

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlements of liabilities in the normal course of business for the following reasons:

- management have considered the future capital requirements of the consolidated entity and will consider all funding options as required; and
- the Group is agile in its ability to respond to market changes and if required, could scale back operations in response to any adverse market changes.

Should the consolidated entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets amounts or liabilities that might be necessary should the entity not continue as a going concern.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Reverse acquisition

On 3 November 2016, Flamingo AI Limited (**Flamingo**) formally known as Cre8tek, completed the acquisition of Flamingo Customer Experience Inc. (**Flamingo CE**), a software as a service company which has developed a customer experience automation platform. Under the Australian Accounting Standards Flamingo was deemed the accounting acquirer in this transaction. The acquisition has been accounted for as a share-based payment by which Flamingo CE acquires the net assets and listing status of Flamingo.

Accordingly, the consolidated financial statements of Flamingo have been prepared as a continuation of the business and operations of Flamingo. For further details of the transaction, please refer to the note 2 of the previously issued financial reports.

d) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries it controlled as at 30 June 2018, or at any time during the year.

e) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed are recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

f) Income tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Income tax (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

g) Leases

Leases are classified at their inception as either operating or finance leases based on economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item.

The cost of improvements to or on leased property is capitalised, disclosed as leasehold improvements and amortised.

Finance leases

Leases which effectively transfer substantially all of the risks and rewards incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and a reduction of the lease liability, with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

h) Financial instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

Classification and subsequent measurement

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. All other loans and receivables are classified as non-current assets.

(ii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

(iii) Derivative instruments

The consolidated entity does not trade or hold derivatives.

(iv) Financial guarantees

The consolidated entity has no material financial guarantees.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Impairment of non-financial assets

At the end of each reporting period, the consolidated entity assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits.

If any such indication exists, an impairment test is carried out on the asset by comparing the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment testing is performed annually on intangible assets with indefinite lives.

j) Intangible assets (including development assets)

Acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured on initial recognition at fair value at the acquisition date.

Internally developed intangible assets (referred to as development assets) are initially recognised at cost, including directly attributable costs.

Intangible assets with indefinite useful lives are not systematically amortised and are tested for impairment annually or whenever there is an indication that the intangible assets may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continued to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. The intangible assets are considered to be with indefinite useful life.

k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks with original maturity of three months or less.

l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

Revenue relating to government grants and the receipt of R&D tax credits from the Australian Government are recorded on an accrual basis. It is accrued in the period relating to which the relevant authority has a definite legal obligation to provide the grant. All grants presented have actually been received as cash as of the date of this report.

Other revenue is recognised when it is received or when the right to receive payment is established.

All revenue is stated net of the amount of goods and services tax.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

Receivable and payables are stated inclusive of the amount of GST receivable or payable. The net amount of the GST recoverable from, or payable to, the ATO is included with other receivables and payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

n) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period.

Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Share based payments

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. The fair value of performance right options is determined using the satisfaction of certain performance criteria ('performance milestones').

The number of share options and performance rights expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The fair value is determined using either a Black Scholes model (options) or by reference to the prevailing share price at the grant date, adjusted for managements best estimate of achieving the performance milestones attached to the issue (performance rights/shares).

o) Equity and reserves

Share capital represents the fair value of shares that have been issued. Any direct transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

The option reserve records the value of share-based payments.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the legal Parent's functional currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognized other comprehensive Income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the historical exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

q) Segment information

Identification of reportable segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources. There is currently one reportable segment.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Earnings per share

Basic earnings per share is calculated by dividing:

- the loss attributable to the members of the parent entity, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year (if any).

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

s) Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates and judgements

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. The consolidated entity reviews intangible assets for impairment once a year, or more frequently if events or changes in circumstances indicate that there is impairment.

Share based payments

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Reverse acquisition

The value of the share-based payment in the reverse acquisition is based on the notional amount of shares that Flamingo CE would need to issue to acquire the majority interest of Flamingo's shares that the shareholders did not own after the acquisition, multiplied by the fair value of Flamingo shares. The deemed fair value of Flamingo's shares is the exchange ratio applied to the share price of the listed entity (Flamingo) at acquisition date.

Development Assets

Cost relating to the development of Flamingo's Cognitive Virtual assistant are capitalised using the sprints methodology. The capitalisation includes all direct costs associated with the development of the asset plus a portion of unavoidable non-direct costs, including some overheads. The development asset is amortised over a three-year period from the capitalisation date which is determined to be the useful life of the asset. When capitalising costs, management makes judgements on the technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, the expected generation of future economic benefits and the ability to measure the costs reliably and whether costs, including payroll costs, were directly attributable to relevant projects.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2: REVERSE ACQUISITION

On 3 November 2016, Flamingo AI Limited (**Flamingo**) formally known as Cre8tek, completed the acquisition of Flamingo Customer Experience Inc. (**Flamingo CE**), a software as a service company which has developed a customer experience automation platform. Under the Australian Accounting Standards Flamingo was deemed the accounting acquirer in this transaction. The acquisition has been accounted for as a share-based payment by which Flamingo CE acquires the net assets and listing status of Flamingo.

Accordingly, the consolidated financial statements of Flamingo have been prepared as a continuation of the business and operation of Flamingo. For further details of the transaction, please refer to the previously issued financial report.

NOTE 3(a): REVENUE AND OTHER INCOME

	30 June 2018	30 June 2017
	\$	\$
Revenue		
Fee income	286,324	321,080
Trials income	240,434	130,375
Other revenue	-	29,300
	<u>526,758</u>	<u>480,755</u>
Other income		
Grant income	1,584,387	526,791
Interest income	76,176	7,269
Net gain on foreign exchange	13,246	-
	<u>1,673,809</u>	<u>534,060</u>

NOTE 3(b): LOSS FOR THE YEAR

Loss before income tax includes the following specific expenses:

Amortisation and depreciation

Amortisation of development assets	649,050	500,046
Depreciation of plant and equipment	56,360	19,184
	<u>705,410</u>	<u>519,230</u>

Net loss on foreign exchange

Net loss on foreign exchange	-	8,267
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Rental expenses relating to operating leases

Minimum lease payments	345,801	256,726
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Employee benefit expense

Defined contribution superannuation expense	302,361	178,639
Share-based payment expense	1,500,915	142,702

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: INCOME TAX

The financial accounts for the year ended 30 June 2018 comprise the results of Flamingo and Flamingo AI. The legal parent is incorporated and domiciled in Australia where the applicable tax rate for 30 June 2018 is 27.5%. The applicable tax rate in USA is 21%, which is applicable to the rate relevant for the financial year ended 30 June 2018.

	30 June 2018	30 June 2017
	\$	\$
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
(b) The prima facie tax payable on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Income tax benefit on operating loss at 27.5% (2017: 27.5%)	(2,258,403)	(3,298,770)
Non-deductible items		
Non-deductible expenditure	714,909	2,321,111
Adjustment for difference in tax rates	(78,070)	(86,373)
Benefits from tax losses not brought to account – Australian operations	1,271,272	947,154
Benefits from tax losses not brought to account – US operations	252,226	126,607
Temporary differences not recognised	98,066	(9,729)
Income tax attributable to operating income/(loss)	-	-
The applicable weighted average effective tax rates are as follows:	Nil%	Nil%
Balance of franking account at year end	Nil	Nil
Deferred tax assets		
Tax losses	1456,339	984,215
Black hole expenditure	67,159	89,546
Unrecognised deferred tax asset	1,523,498	1,073,761
Less deferred tax assets not recognised	(1,523,498)	(1,073,761)
Net deferred tax	-	-
Unused tax losses for which no deferred tax asset has been recognised	1,523,498	1,073,761

Carry forward losses

Assessable future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2018, because the Directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

Furthermore, for purposes of assessing the consolidated tax position of the Group, the US based operations are deemed to not be classified as an Australian tax resident nor is the foreign operation deemed to be carrying on business in Australia, in terms of the Australian tax law.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5: RELATED PARTY TRANSACTIONS

a) Key management personnel compensation

During the year, the Directors entered into a contract to each to be paid \$4,583 per month. The fees were changed effective from 1 April 2018 and the contracts remains in place until the Directors either resign or are not re-elected at an AGM. Prior to this date, Directors were contracted to be paid \$3,000 per month.

The totals of remuneration paid to key management personnel during the year are as follows:

	30 June 2018	30 June 2017
	\$	\$
Short-term salary, fees and commissions (including bonus)	637,211	478,985
Post-employment superannuation	47,911	31,343
Share based-payments	468,708	-
Directors fees	145,000	132,300
	<u>1,298,830</u>	<u>642,628</u>

b) Other related party transactions

Some Directors or former Directors of the consolidated entity hold or have held positions in other companies, where it is considered they control or significantly influence the financial or operating policies of those entities. During the year, the following entities provided corporate services and rental to the Group. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Entity	Nature of transactions	Key management personnel	Total transactions		Payable balance	
			2018	2017	2018	2017
			\$	\$	\$	\$
Otsana Capital Pty Ltd	Corporate advisor retainer	Faldi Ismail*	-	50,065	-	3,366
Otsana Capital Pty Ltd	Placement fee	Faldi Ismail*	-	210,000	-	-
Otsana Capital Pty Ltd	Capital raising fee	Faldi Ismail*	-	143,788	-	-
Adamantium Holdings Pty Ltd	Rent and registered office fee	Faldi Ismail*	-	18,000	-	1,500
Bellanhous Legal	Retainer fee	Bryn Hardcastle**	90,000	40,000	-	-
Bellanhous Legal	Legal fee	Bryn Hardcastle**	19,613	182,182	8,166	-

*Faldi Ismail is a former Director of the Company; resigned 27 June 2017

**Bryn Hardcastle resigned 27 August 2018

The following transactions occurred with Bellanhous Legal, a company related to director Mr Bryn Hardcastle during the year ended 30 June 2018:

- a total of \$90,000 was paid for legal retainer fees during the period 1 July 2017 to 30 June 2018;
- a total of \$19,613 was paid for legal fees relating to various legal matters, including the costs associated with the capital raising.

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: AUDITOR'S REMUNERATION

	30 June 2018	30 June 2017
	\$	\$
Remuneration of the auditor of the Group for:	William Buck	BDO
- Audit and review services of the financial report (provide by Audit Director)	31,864	38,149
- Other services (assistance in accounting for reverse acquisition transaction)	-	18,997
- Other services (provided by Tax Director)	42,614	-
	<u>74,478</u>	<u>57,146</u>

NOTE 7: LOSS PER SHARE

	30 June 2018	30 June 2017
	\$	\$
Loss per share (EPS)		
Loss used in calculation of basic EPS and diluted EPS	(8,212,374)	(11,995,526)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share	1,194,177,981	628,405,582

At 30 June 2018, the Group had a total of 107,33,7138 performance rights and options, and 186,584,814 performance shares on issue which are considered to have a non-dilutive effect.

NOTE 8(a): CASH AND CASH EQUIVALENTS

	30 June 2018	30 June 2017
	\$	\$
Cash at bank	11,403,297	3,383,003
	<u>11,403,297</u>	<u>3,383,003</u>

Refer to Note 21 which details the risk associated with cash and cash equivalents.

NOTE 8(b): CASH FLOW INFORMATION

	30 June 2018	30 June 2017
	\$	\$
Loss after income tax	(8,212,374)	(11,995,525)
Non-cash flows in loss after income tax		
Depreciation	56,360	16,432
Amortisation	649,050	500,046
Listing expenses	-	7,386,292
Share based payment expense	1,500,915	142,702
Non-cash transaction costs	-	531,455
Foreign currency loss/ (gain)	(13,246)	8,493
Changes in assets and liabilities		
Increase in trade and other receivables	(1,064,414)	(271,833)
Increase in other current assets	(60,650)	(32,904)
Increase in trade and other payables	589,066	165,311
(Decrease)/increase in deferred income	(93,309)	196,577
Increase in provisions	113,658	124,812
Net cash used in operating activities	<u>(6,534,944)</u>	<u>(3,228,142)</u>

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8(b): CASH FLOW INFORMATION (CONTINUED)

Credit standby facilities

The Group has no credit standby facilities at 30 June 2018 (30 June 2017: none).

Non-cash investing and financing activities

There were no non-cash investing and financing activities during the year ended 30 June 2018 (30 June 2017: none).

NOTE 9: TRADE AND OTHER RECEIVABLES

	30 June 2018	30 June 2017
	\$	\$
CURRENT		
Trade receivables	135,135	146,181
Term deposits	-	30,000
GST receivable	35,716	92,710
Other receivables	1,113,364	32,904
	<u>1,284,215</u>	<u>301,795</u>

All trade and other receivable amounts are short-term. The net carrying value is considered a reasonable approximation of fair value. Refer to Note 21 which details the risks associated with trade and other receivables.

At 30 June 2018, trade receivables are aged as follows: 100% of the balance is current (30 June 2017: 99.23% of the balance current and less than 1% 90days plus).

Other receivables at 30 June 2018 include \$1,113,364 relating to R&D tax refund claims lodged with the Australian Tax Authority (ATO) and confirmed receipted on 6 August 2018.

NOTE 10: PLANT AND EQUIPMENT

	30 June 2018	30 June 2017
	\$	\$
Plant and equipment at cost		
Opening balance at 1 July	120,576	61,562
Additions	66,796	59,014
Closing balance at 30 June	<u>187,372</u>	<u>120,576</u>
Accumulated depreciation		
Opening balance at 1 July	53,464	34,280
Depreciation expense for the year	56,360	19,184
Closing balance at 30 June	<u>109,824</u>	<u>53,464</u>
Net book value at 30 June	<u>77,548</u>	<u>67,112</u>

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11: INTANGIBLE ASSETS

	30 June 2018	30 June 2017
	\$	\$
Opening balance at 1 July	84,856	-
Additions	-	84,856
Disposals	(84,856)	-
Closing balance at 30 June	-	84,856

Intangible assets relate to legal fees capitalised for the provision of services relating to patent and trademark application. This has been expensed during the current year in accordance with the progress of patent and trademark applications.

NOTE 12: DEVELOPMENT ASSETS

	30 June 2018	30 June 2017
	\$	\$
Opening balance at 1 July	1,332,131	514,452
Development costs capitalised for Flamingo	34,972	1,267,725
Development costs on acquisition of Agenda	-	50,000
Amortisation expense for the period	(649,050)	(500,046)
Closing balance at 30 June	718,053	1,332,131

Development assets comprise of total direct costs and a portion of other non-avoidable indirect costs relating to the development of the Group's Cognitive Virtual Assistant platform. It also includes the costs associated with the acquisition of Agenda. Development costs are capitalised using the sprints methodology and are amortised over a three-year period from the date of capitalisation.

Management has considered if any indicators of impairment exist at 30 June 2018 and subsequent to this date and have determined that no indicators of impairment existed and that the carrying value of the asset can be carried forward.

NOTE 13: TRADE AND OTHER PAYABLES

	30 June 2018	30 June 2017
	\$	\$
CURRENT		
Trade payables	459,555	254,109
Accruals	26,000	45,000
PAYG withholdings*	376,527	116,055
Others	118,412	54,496
	980,494	469,660

*PAYG withholding tax payable has been fully settled following the year-end.

All trade and other payable amounts are short-term. The net carrying value is considered a reasonable approximation of fair value.

NOTE 14: DEFERRED INCOME

	30 June 2018	30 June 2017
	\$	\$
CURRENT		
Deferred income	240,811	292,309
Total deferred income	240,811	292,309

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CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROVISIONS

	30 June 2018	30 June 2017
	\$	\$
CURRENT		
Provision for annual leave	278,350	163,837
	<u>278,350</u>	<u>163,837</u>

NOTE 16: ISSUED CAPITAL

	30 June 2018	30 June 2017
	\$	\$
(a) Share capital		
1,120,126,765 (30 June 2016: 687,282,551) fully paid ordinary shares	34,893,595	19,913,416

	No.	\$
(b) Movements in fully paid ordinary capital		
Opening balance at 1 July 2016	4,939,843	3,594,442
Elimination of Flamingo Customer Experience Inc. shares on acquisition of Flamingo AI Limited	(4,939,843)	-
Existing shares of Flamingo AI Limited	234,426,409	-
Acquisition of Flamingo Customer Experience Inc.	272,727,273	9,377,056
Shares issued to facilitators	13,286,364	531,455
Shares issued under the Public Offer	75,000,000	3,000,000
Shares issued under Private Placement	87,500,000	3,500,000
Shares issued to Clarion	940,540	37,622
Shares issued under the Shortfall Offer	3,401,965	136,079
Less: capital raising costs	-	(263,238)
Closing balance at 30 June 2017	<u>687,282,551</u>	<u>19,913,416</u>
Opening balance at 1 July 2017	687,282,551	19,913,416
Shares issued under Placement	289,360,961	15,122,826
Conversion of Class A Performance Shares	93,292,459	-
Conversion of Class A, B, C and D Performance Rights	33,000,000	300,971
Exercise of options	17,190,794	409,385
Less: capital raising costs	-	(853,003)
Closing balance at 30 June 2018	<u>1,120,126,765</u>	<u>34,893,595</u>

(c) Capital Management

Due to the nature of the Group's activities, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet research and development programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

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NOTE 16: ISSUED CAPITAL (CONTINUED)

Performance shares

In addition to the number of shares disclosed above, there are also 279,877,273 performance shares which have been issued as part of the reverse takeover transaction (272,727,273 issued to the vendor and 7,150,000 to the facilitators).

The performance shares will convert to ordinary shares on 1:1 basis subject to the performance milestones being met prior to the expiry date, being 3.5 years from the date of the issue of performance shares.

The terms of the performance shares in issue during the current financial year, all of which have a grant date of 3 November 2016, are summarised in the following table.

Class	Number of performance shares	Period escrowed	Performance milestones
Class A	93,292,459	29,146,358 escrowed for a period of 12 months 64,146,101 escrowed for a period of 24 months.	Flamingo executes a legally binding Master Service Agreement (MSA) and completes a security audit with a substantial US corporation, and either: <ul style="list-style-type: none"> that MSA remains valid, binding and enforceable for at least 12 months after its execution; or the Flamingo Platform technology is applied in another business vertical of the substantial US corporation outside any business unit where the technology is being trialled.
Class B	93,292,407	29,146,311 escrowed for a period of 12 months 64,146,096 escrowed for a period of 24 months.	Flamingo achieves \$13,000,000 in revenue in any 12-month period within 36 months of 3 November 2016
Class C	93,292,407	29,146,311 escrowed for a period of 12 months 64,146,096 escrowed for a period of 24 months.	Flamingo achieves \$28,000,000 in revenue in any 12-month period within 36 months of 3 November 2016

On 3 November 2017, the performance milestone relating to the Class A performance shares had been satisfied and these have converted into ordinary shares on a 1:1 basis.

The Class B and C performance shares have been valued at the grant date by reference to the prevailing share price at that date. No expense has been recognised in the current year due to the uncertainty of meeting the performance milestones which are based on future events.

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NOTE 17: PERFORMANCE RIGHTS

During the year ended 30 June 2018, the consolidated entity had the following performance rights on issue:

Grant Date	Performance right class	Expiration dates	Number of rights issued	Performance milestones
22-Jan-16	Class A	05-Feb-18	9,999,999	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 3 cents
22-Jan-16	Class B	05-Feb-18	9,999,999	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 4 cents
22-Jan-16	Class C	05-Feb-18	10,000,002	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 5 cents Flamingo executes a legally binding Master Service Agreement (MSA) and completes a security audit with a substantial US corporation, and either:
30-Nov-16	Class D	30-May-20	3,000,000	<ul style="list-style-type: none"> that MSA remains valid, binding and enforceable for at least 12 months after its execution; or the Flamingo Platform technology is applied in another business vertical of the substantial US corporation outside any business unit where the technology is being trialled
30-Nov-16	Class E	30-May-20	3,000,000	Flamingo achieves \$13,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016
10-Apr-18	Class E	10-Oct-21	4,000,000	Flamingo achieves \$13,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016
30-Nov-16	Class F	30-May-20	3,000,000	Flamingo achieves \$28,000,000 in Revenue in any 12-month period within 36 months of 3 November 2016
19-Oct-17	Class G	19-Oct-20	9,000,000	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 10 cents, within 36-months of issue
10-Apr-18	Class G	10-Apr-21	6,000,000	Upon volume weighted average price (VWAP) for 10 consecutive trading days of shares equals or exceeds 10 cents, within 36-months of issue

The 30,000,000 Class A, B and C performance rights were released from escrow on 5 February 2018 and converted into fully paid ordinary shares on 1:1 basis.

The 9,000,000 performance rights granted on 30 November 2016 (Class D, E and F) were issued under the Company's Performance Rights Plan. These performance rights were approved for issue by shareholders at the Company's AGM on 29 October 2016. At the grant date, the performance rights have been valued by reference to the prevailing share price at that date.

During the year, 3,000,000 of the newly issued performance rights were converted to ordinary fully paid shares on a 1:1 basis, due to the performance milestone of the Class D rights being achieved. The reassessment of the non-market conditions attached to the underlying milestone resulted in an expense of \$117,000 being recognised in relation to these rights.

The 4,000,000 performance rights issued on 10 April 2018 (Class E) were issued under the Company's Performance Rights Plan. These performance rights were approved for issue by shareholders at the Company's AGM on 29 October 2016. At the grant date, the performance rights have been valued by reference to the prevailing share price at that date.

No expense has been recognised in the current year in respect of the Class E and F performance rights due to management's assessment over the likelihood of the performance milestones being satisfied and the rights vesting.

On 19 October 2017 and 10 April 2018, the Company granted 9,000,000 and 6,000,000 (Class G) performance rights under the Company's Performance Rights Plan. These performance rights were approved by shareholders at the Company's AGM on 19 October 2017. The performance rights have a milestone of a VWAP for 10 consecutive trading days of shares equalling or exceeding 10 cents. The fair value of these 14,000,000 performance rights with market linked vesting conditions have been determined by reference to the prevailing share price at that date, adjusted for managements best estimate of achieving the performance milestone over the vesting period. The fair value of the Class G performance rights is being recognised equally over the 36-month vesting period.

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NOTE 18: RESERVES	30 June 2018	30 June 2017
	\$	\$
a) Reserves		
Option reserve 107,337,138 (30 June 2017: 165,769,206) options on issue	1,380,832	180,708
Foreign currency reserve	(100,085)	(4,358)
	<u>1,280,747</u>	<u>176,350</u>

The option reserve records the value of share-based payment transactions.

The foreign currency reserve records the exchange differences arising on translation of foreign operations with functional currencies, other than Australia dollars.

b) Movement in option reserve	No.	\$
Opening balance at 1 July 2017	178,750	75,628
Options expired	(46,163)	(1,082)
Elimination of Flamingo Customer Experience Inc. options on acquisition of Flamingo AI Limited	(132,587)	-
Existing options of Flamingo AI Limited	75,475,453	-
Existing performance rights of Flamingo AI Limited	30,000,000	-
Issue of \$0.029 employee options under the Employee Offer	6,077,375	38,669
Issue of fee attaching options under the Private Placement	45,451,015	-
Issue of \$0.04 employee options under the Employee Offer	5,865,363	43,579
Issue of \$0.08 employee options under the Employee Offer	900,000	4,126
Issue of options to a consultant	2,000,000	19,788
Closing balance at 30 June 2017	165,769,206	180,708
Opening balance at 1 July 2017	165,769,206	180,708
Expiration of free existing options attached to Private Placement	(45,926,468)	-
Exercise of employee options under the Employee Offer with exercise price of \$0.03	(5,600,000)	485,634
Exercise of employee options under the Employee Offer with exercise price of \$0.02	(10,937,498)	121,781
Issue of Class D, E and F Performance Rights	28,000,000	-
Exercise of Class A, B, C and D Performance Rights	(33,000,000)	-
Movement of employee options under the Employee Offer with exercise price of \$0.029	(1,154,427)	39,052
Movement of employee options under the Employee Offer with exercise price of \$0.040	(1,100,000)	106,254
Movement of employee options under the Employee Offer with exercise price of \$0.080	-	(4,126)
Movement of employee options under the Employee Offer with exercise price of \$0.070	7,786,325	253,294
Movement of options to consultants	3,500,000	198,235
Closing balance at 30 June 2018	<u>107,337,138</u>	<u>1,380,832</u>

FINANCIAL REPORT 30 JUNE 2018**CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018****NOTE 19: SHARE BASED PAYMENTS**

During the year ended 30 June 2018, the following share-based payment transactions occurred:

- 6,077,375 Employee Options were issued on 3 November 2016 of which 1,154,427 have been forfeited due to their departure and not meeting the vesting conditions. This gives rise to 4,922,948 options.
- 5,865,363 Employee Options were issued on 16 December 2016 of which 2,204,545 have been forfeited due to the departure and not meeting the vesting conditions, and an additional 454,545 issued. This gives rise to 4,115,363 options.
- 900,000 Employee Options were issued on 16 February 2017 of which 400,000 have been forfeited due to their departure and not meeting the vesting conditions. This gives rise to 500,000 options.
- 400,000 Employee Options were granted on 9 June 2017 at \$0.08 each expiring 30 June 2020 under the Employee Share Option Plan.
- 2,000,000 Options were issued on 23 December 2016 to a consultant under the Consultancy Agreement of which 1,500,000 have since been forfeited. This gives rise to a remaining 500,000 options.
- 5,000,000 Options were granted on 19 December 2017 at \$0.05 each expiring 18 December 2019 to a consultant under the Consultancy Agreement.
- 650,000 Employee Options were granted on 13 December 2017 at \$0.04 each expiring 22 March 2023 under the Employee Share Option Plan.
- 7,786,325 Employee Options were granted on 1 January 2018 at \$0.07 each expiring 30 June 2020 under the Employee Share Option Plan.
- 25,000,000 Investor Options were issued on 4 November 2015 of which 10,937,498 have been exercised. This gives rise to 14,062,502 options.
- 50,000,000 Investor Options were issued on 21 January 2016 of which 5,600,000 have been exercised. This gives rise to 44,400,000 options.
- These options have been valued using the Black and Scholes option valuation methodology taking into accounts the terms and conditions prevalent at the grant date, upon which the options were granted.

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NOTE 19: SHARE BASED PAYMENTS (CONTINUED)

A summary of the inputs used in the valuation of the options and shares is as follows:

Options	Employee Replacement Options	Employee Options	Consultant Options	Consultant Options	Employee Options	Employee Options
Exercise price	\$0.029	\$0.04	\$0.08	\$0.05	\$0.08	\$0.08
Grant date	03-Nov-16	16-Dec-16	23-Dec-16	19-Dec-17	16-Feb-17	09-Jun-17
Expected volatility (i)	100%	100%	100%	100%	100%	100%
Expiry date	03-Nov-21	16-Dec-21	16-Dec-19	18-Dec-19	30-Jun-20	30-Jun-20
Value per option	\$0.0316	\$0.0665	\$0.0396	\$0.0394	\$0.0451	\$0.0158
Number of options	4,922,948	4,115,363	500,000	5,000,000	500,000	400,000
Vesting date	(ii)	(ii)	(iii)	(iii)	(ii)	(iv)
Options	Employee Options	Employee Options	Investors Options	Investors Options		
Exercise price	\$0.04	\$0.07	\$0.02	\$0.03		
Grant date	13-Dec-17	01-Jan-18	4-Nov-15	21-Jan-16		
Expected volatility (i)	100%	100%	100%	100%		
Expiry date	22-Mar-23	30-Jun-20	4-Nov-19	5-Feb-19		
Value per option	\$0.0579	\$0.0489	\$0.0139	\$0.0109		
Number of options	650,000	7,786,325	14,062,502	44,400,000		
Vesting date	(ii)	(iv)	(iii)	(iii)		

(i) Volatility was determined in reference to similar companies for the same period.

(ii) All employee options vest on the following basis; 1/3 vest on one-year anniversary of the grant date of the option with 1/36 vesting each month after the initial vesting date until all options have vested.

(iii) The consultant options are fully vested at 30 June 2018.

(iv) All employee options vest on second-year anniversary of the employment date.

The share-based compensation at 30 June 2018 comprises of the following:

Description	30 June 18
	\$
Movement in options issued to employees at exercise price of \$0.029	39,052
Movement in options issued to employees at exercise price of \$0.040	106,254
Movement in options issued to employees at exercise price of \$0.080	(4,126)
Movement in options issued to consultant at exercise price of \$0.070	253,294
Movement in performance rights (class A, B, C and D)	300,791
Movement in options issued to investors (exercise price of \$0.02 and \$0.03)	607,415
Movement in shares issued to consultants	198,235
Total	1,500,915

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NOTE 20: OPERATING SEGMENTS

The Group has identified its operating segment based on internal reports that are reviewed by the Board and management. The company has determined that it has one operating segment. The Board does not identify separate segments for internal management reporting hence no segment information has been reported.

NOTE 21: FINANCIAL INSTRUMENTS**Financial risk management policies**

The Group's financial instruments consist mainly of deposits with banks, other debtors and accounts payable. The main purpose of non-derivative financial instruments is to raise finance for Group's operations.

Specific financial risk exposures and management

The main risk the Group is exposed to through its financial instruments are market risk (including fair value and interest rate risk) and cash flow interest rate risk, credit risk and liquidity risk.

(a) Interest Rate Risk

From time to time the Group has significant interest-bearing assets, but they are as a result of the timing of equity raising and capital expenditure rather than a reliance on interest income. The interest rate risk arises on the rise and fall of interest rates. The Group's income and operating cash flows are not expected to be materially exposed to changes in market interest rates in the future and the exposure to interest rates is limited to the cash and cash equivalents balances.

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is below:

	Floating interest rate	Non- interest bearing	2018 Total	Floating interest rate	Non- interest bearing	2017 Total
	\$	\$	\$	\$	\$	\$
Financial assets						
- <i>Within one year</i>						
Cash and cash equivalents	11,403,297	-	11,403,297	3,383,003	-	3,383,003
Other receivables	-	1,284,215	1,284,215	-	301,795	301,795
Total financial assets	11,403,297	1,284,215	12,687,512	3,383,003	301,795	3,684,798
<i>Weighted average interest rate</i>	1.03%			0.41%		
Financial liabilities						
- <i>Within one year</i>						
Trade and other payables	-	980,494	980,494	-	469,660	469,660
Other liabilities	-	-	-	-	-	-
Total financial liabilities	-	980,494	980,494	-	469,660	469,660
<i>Weighted average interest rate</i>	n/a			n/a		
Net financial assets	11,403,297	303,721	11,707,018	3,383,003	(167,865)	3,215,138

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NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity analysis

The following table illustrates sensitivities to the consolidated entity's exposures to changes in interest rates. The table indicates the impact on how profit or equity values reported at reporting date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Movement in profit	Movement in equity
Year ended 30 June 2018	\$	\$
+/-1% in interest rates	73,931	73,931
Year ended 30 June 2017		
+/-1% in interest rates	17,762	17,762

(b) Credit risk

The maximum exposure to credit risk is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

	Note	30 June 2018 \$	30 June 2017 \$
Cash and cash equivalents - AA Rated	8(a)	11,403,297	3,383,003

(c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The Group has no access to credit standby facilities or arrangements for further funding or borrowings in place. The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

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NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)

30 June 2018	Interest rate	Less than 6 months \$	6-12 months \$	1-2 years \$	2-5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying amount assets/ (liabilities) \$
<i>Financial liabilities at amortised cost</i>								
Trade and other payables		980,494	-	-	-	-	980,494	980,494
Borrowings	<i>n/a%</i>	-	-	-	-	-	-	-
		980,494	-				980,494	980,494

30 June 2017	Interest rate	Less than 6 months \$	6-12 months \$	1-2 years \$	2-5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying amount assets/ (liabilities) \$
<i>Financial liabilities at amortised cost</i>								
Trade and other payables		469,660	-	-	-	-	469,660	469,660
Borrowings	<i>n/a%</i>	-	-	-	-	-	-	-
		469,660	-				469,660	469,660

(d) Net fair value of financial assets and liabilities

Fair value estimation

Due to the short-term nature of the receivables and payables of the Group, the carrying value approximates fair value.

(e) Financial arrangements

The consolidated entity had no other financial arrangements in place at 30 June 2018 based on the information available to the current board (30 June 2017: none).

(f) Currency risk

The currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the consolidated entity's functional currency. The consolidated entity is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US \$.

The Group's policy is not to enter into any currency hedging transactions.

	30 June 2018		30 June 2017	
Cash and cash equivalents	Foreign Currency	AUD Equivalent	Foreign Currency	AUD Equivalent
US \$	30,335	40,993	119,530	155,527

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NOTE 22: PARENT ENTITY FINANCIAL INFORMATION

The following information has been executed from the books and records of the legal parent Flamingo AI Limited have been prepared in accordance with Australian Accounting Standards and the accounting policies as outlined in Note 1.

(a) Statement of financial position

	30 June 2018	30 June 2017
	\$	\$
ASSETS		
Current assets	10,686,974	2,532,501
Non-current assets	7,692,990	2,097,337
TOTAL ASSETS	<u>18,379,964</u>	<u>4,629,838</u>
LIABILITIES		
Current liabilities	656,988	351,333
TOTAL LIABILITIES	<u>656,988</u>	<u>351,333</u>
NET ASSETS	<u>17,722,976</u>	<u>4,278,505</u>
SHAREHOLDERS' EQUITY		
Issued capital	242,057,975	227,077,797
Reserves	5,171,724	3,880,249
Accumulated Losses	(229,506,723)	(226,679,541)
SHAREHOLDERS' EQUITY	<u>17,722,976</u>	<u>4,278,505</u>

(b) Statement of profit or loss and other comprehensive income

Loss for the year	(2,827,182)	(4,693,534)
Other comprehensive income	-	-
Total comprehensive loss	<u>(2,827,182)</u>	<u>(4,693,534)</u>

(c) Guarantees entered into by Flamingo AI Limited for the debts of its subsidiaries

There are no guarantees entered into by Flamingo AI Limited as at 30 June 2018 (30 June 2017: none).

(d) Contingent liabilities of Flamingo AI Limited

There were no known contingent liabilities of the Company as at 30 June 2018 (30 June 2017: none).

(e) Commitments by Flamingo AI Limited

The Company did not have any commitments or contractual obligations as at 30 June 2018 (30 June 2017: none).

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NOTE 23: CONTROLLED ENTITIES

Controlled entity	Country of incorporation	Percentage ownership	
		30 June 2018	30 June 2017
Global Agenda Technologies Pty Limited	Australia	100%	100%
Flamingo Ventures Pty Limited	Australia	100%	100%
Flamingo Customer Experience Inc	USA	100%	100%

NOTE 24: COMMITMENTS

	30 June 2018	30 June 2017
	\$	\$
No longer than 1 year	237,533	64,075
Longer than 1 year and not longer than 5 years	25,767	93,975
Longer than 5 years	-	-
	<u>263,300</u>	<u>158,050</u>

Commitments represent contractual obligations under the Gartner Australasia Pty Limited Service Agreement for Flamingo Ventures Pty Limited and office leases.

NOTE 25: CONTINGENT LIABILITIES

The Group has no known contingent liabilities as at 30 June 2018 (30 June 2017: none).

NOTE 26: EVENTS SUBSEQUENT TO REPORTING DATE

The consolidated entity lodged and received a \$1,113,363 R&D tax refund in August 2018 from the Australian Taxation Office (ATO).

As announced on 27 August 2018, the Group appointed Mr John Murray as Non-Executive Chair of the Board, effective as at 1 October 2018. Mr Murray's experience and skills are well suited to leading the Group through its future growth phases.

Mr Bryn Hardcastle has advised the Board of his resignation due to work commitments, effective on 27 August 2018.

There were no other significant events after the reporting date.

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NOTE 27: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Australian accounting standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2018 are outlined in the table below.

New/revised pronouncement	Explanation of amendments	Application date of standard	Application date of group
AASB 9 Financial Instruments	<p>AASB 9 replaces AASB 139 '<i>Financial Instruments: Recognition and Measurement</i>'.</p> <p>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.</p> <p>Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB9, including the embedded derivative separation rules and the criteria for using the FVO.</p> <p>The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139</p>	1 January 2018	1 July 2018
Impact on Flamingo AI Limited			
The consolidated entity have assessed that there is no expected material impact of the above standard.			

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NOTE 27: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

New/revised pronouncement	Explanation of amendments	Application date of standard	Application date of group
AASB 15 Revenue from Contracts with Customers	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 '<i>Construction Contracts</i>', AASB 118 '<i>Revenue</i>', AASB Interpretation 13 '<i>Customer Loyalty Programmes</i>', AASB Interpretation 15 '<i>Agreements for the Construction of Real Estate</i>', AASB Interpretation 18 '<i>Transfers of Assets from Customers</i>' and AASB Interpretation 131 '<i>Revenue –Barter Transactions Involving Advertising Services</i>') and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 '<i>Leases</i>', once applied).</p> <p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> ▶ Step 1: Identify the contract(s) with a customer ▶ Step 2: Identify the performance obligations in the contract ▶ Step 3: Determine the transaction price ▶ Step 4: Allocate the transaction price to the performance obligations in the contract ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation <p>Impact on Flamingo AI Limited</p> <p>The consolidated entity has assessed that there is no expected material impact on adoption of AASB 15 on its existing operations due to the nature of the Group's revenue streams. Management will continue to assess the impact of these changes on any new contracts going forward.</p>	1 January 2018	1 July 2018

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NOTE 27: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

New/revised pronouncement	Explanation of amendments	Application date of standard	Application date of group
AASB 16 Leases	<p>AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 'Leases'. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p> <p>Impact on Flamingo AI Limited</p> <p>The consolidated entity have assessed that there is no expected material impact of the above standard due to the short-term nature of lease agreements.</p>	1 January 2019	1 July 2019
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based payment transactions	<p>This Standard amends AASB 2 'Share-based Payments', clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> ▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ▶ Share-based payment transactions with a net settlement feature for withholding tax obligations ▶ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. <p>Impact on Flamingo AI Limited</p> <p>The consolidated entity have assessed that there is no expected material impact of the above standard.</p>	1 January 2018	1 July 2018

The Group has decided not to early adopt any of the new and amended pronouncements. The impact of the above standards is yet to be determined unless noted otherwise above.

flamingo **AI** LIMITED
ABN 99 000 031 292
FINANCIAL REPORT 30 JUNE 2018

DIRECTORS' DECLARATION

In the Director's opinion:

- The consolidated financial statements and notes set out on pages 19 and 50 are in accordance with the Corporations Act 2001;
- The consolidated financial statements complying with Australian Accounting Standards and Corporations Regulations 2001, noting the matters documented in Note 1(a);
- The consolidated financial statements and notes give a true and fair view, the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declaration required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.



Dr Catriona Wallace
Chief Executive Officer and Managing Director
30 August 2018

Flamingo AI Limited and its controlled entities

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Flamingo AI Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia.

We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CHARTERED ACCOUNTANTS & ADVISORS

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Capitalisation of development costs as an asset

Area of focus Refer also to notes 1(j) and 12	How our audit addressed it
<p>Development assets at 30 June 2018 have a carrying value of \$718,053 (2017: \$1,332,131). Amounts capitalised in FY18 equate to \$34,972 (2017: \$1,267,725).</p> <p>The capitalisation of development costs as an asset is a key audit matter due to the significance of the balance and the specific criteria of AASB 138 '<i>Intangible Assets</i>' which defines whether costs incurred reflects research or development of a product and limits capitalisation to development costs..</p> <p>The assessment of whether costs can be capitalised as development or expensed involves management judgement with respect to the technical feasibility, intention and ability to complete the asset, ability to use or sell the asset, ability to generate future economic benefits and the ability to measure costs reliably. In addition, assessing whether costs incurred are directly attributable to the asset generated.</p> <p>In addition, the estimation of the useful economic life of the development asset, as well as impairment considerations, include a level of management judgement.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> — Discussions with management to determine the nature of research and development activities conducted during the year-ended 30 June 2018; — Evaluation of management's key assumptions applied in determining the value of development costs to be capitalised, including an assessment as to whether the costs incurred reflected the development phase of the asset, in line with AASB 138 '<i>Intangible Assets</i>'; — Assessing the adequacy of management's assessment of the useful economic lives of the capitalised assets and managements impairment considerations; and <p>Ensuring sufficient and adequate disclosure in the consolidated financial report at note 1(j) and note 12 in respect of development assets.</p>

Treatment of share-based payments (including options, performance rights and performance shares)

Area of focus Refer also to notes 1(n), 17, 18 and 19	How our audit addressed it
<p>During the current year, the Group issued a significant number of share-based payments, and recognised employee expenses of \$1,500,915 (2017: \$142,702) in the consolidated statement of profit or loss and other comprehensive income and at 30 June 2018, the balance of the option reserve equated to \$1,380,832 (2017: \$180,708).</p> <p>Accounting for share-based payments is a key audit matter due to the significance of the balances involved and the transactions occurring during the year, and the inherent complexities involved in accounting for them correctly, in line with AASB 2 '<i>Share-Based Payments</i>'.</p> <p>Management is required to ensure the correct identification of the relevant criteria of each specific share-based payment transaction (i.e. market vs. non-market conditions, vesting vs. non-vesting conditions, equity vs. cash settlement), and ensure that it is being accounted for correctly.</p> <p>In addition, the fair value assessment of share-based payments involves a high level of management judgement and estimation.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> — Review of the share-based payment expense, cross-referencing material issues to supporting documentation, as well as a review of management's reconciliation of movements in the option reserve during the year; — Testing on a sample basis: <ul style="list-style-type: none"> • Management's valuation techniques to assess the grant date fair value of share-based payments issued, verifying the reasonableness and accuracy of inputs applied; • amounts recognised in the current year for issued share-based payments, in-line with the terms and conditions specified by the applicable agreement; • other movements in share-based payments (including the exercise, lapsing and conversation of incentives); <p>Ensuring sufficient and adequate disclosure in the remuneration report in regards to share-based payment transactions with key management personnel, and in the consolidated financial report at note 17, 18 and 19, and 1(n).</p>

Other Matters

The financial report of the Group for the year ended 30 June 2017 was audited by another auditor who expressed an unmodified opinion on the financial report on 30 August 2017.

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018 but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included at pages 11 to 17 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Flamingo AI Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



William Buck
Chartered Accountants
ABN 16 021 300 521



R. Ahrens
Director
Sydney, 30 August 2018